MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BBF3624 – CREDIT MANAGEMENT

(All sections / Groups)

11th OCTOBER 2017
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 3 Questions only.
2. Attempt **ALL** questions. Distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

ANN JOO RESOURCES BHD is applying for a RM10.0 million loan from your bank. The company is a company listed on Main board of Malaysia Bourse since the last 10 years. Its average share price for the current year is RM3.75 while its debt was rated "A" and currently trading at 7.5% while comparable Government bonds is trading at 5.9%. Its last financial year profit before tax was RM173,897,000 on Sales of RM521,566,000. Its inventory currently stands at RM61,001,000. Highlights from its latest financial statements are given below.

Balance Sheet	**RM**
Total Current Assets	588,015,000
Total Noncurrent Assets	569,749,000
Total Assets	1,157,764,000
Total Current Liabilities	403,930,000
Total Noncurrent Liabilities	203,608,000
Total Liabilities	607,438,000
Shareholders' Equity	550,326,000
Retained Earnings	278,893,000
Number of shares outstanding (units)	142,869,000

Your investigation had also revealed the followings facts. The recent board of directors meeting which was held last month resolved that the Directors are authorized to apply and undertake on behalf of the company a loan of RM10.0 million. Further checking on the company and its Directors from CTOS Data System, Bank Negara Malaysia (BNM) on Central Credit Reference Information System (CCRIS), Credit Bureau Malaysia on Credit Risk Report (CRR) reveals no pending legal actions and adverse credit findings. The Directors also have no criminal records after further checking with an internal fraud database, PDRM, BNM and SPRM databases. Searches from Malaysia Department of Insolvency and BankersAccuity database on all Directors and the company also produced negative findings. All fixed assets, worth RM7.0 million, have been valued by your bank's panel of registered valuer, C. H. Williams and Talhar, are found to be free from any encumbrances and have not been used as collateral for any loans prior to this. The last bond issuance by the company was an unsecured loan stocks. The analyst of your bank also provided you with an overall positive outlook on Malaysian economy for the next 5 years and Ann Joo's business sector is not in negative list of the bank and within the limit of the bank's total loan exposure to the sector.

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a. Based on the information above, conduct an expert analysis by commenting (and calculating relevant ratios wherever applicable) on the following:

i. Character (6 marks)

ii. Capacity (6 marks)

iii. Cash (6 marks)

iv. Collateral (4 marks)

v. Conditions (3 marks)

b. Conduct risk premium analysis for the company by answering the following:

i. What is the risk premium implied from the comparison between the company's issued bond and the government bond? What does this mean? (1 mark)

ii. Calculate its probability of non-repayment. (1 mark)

iii. If the expected recovery rate is 90%, what is the consequent premium required? (1 mark)

iv. Based on your answers in i, ii and iii, is the premium reflected in the company's bond issuance sufficient to cover the additional risk? (2 marks)

(Total: 30 marks)

QUESTION 2

a. Describe the business cycle and explain how the business cycle is related to banks' experience with problem loans? (10 marks)

b. Describe briefly how are problem loans being categorised and restructured? (10 marks)

c. What is dynamic provisioning and list three (3) advantages of this method? (10 marks)

(Total: 30 marks)

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QUESTION 3

Mr. Jacobs is the Chief of Treasury unit for CCM Bank Bhd. In view of new information he has just received, he needs to determine the minimum spread that must be charged for a potential new loan of RM 2,000,000 with 5 years maturity. Based from the bank's record, similar loan risk rating would have a loss (mortality) rate of 5%. The bank has also factored in a loan loss allowance of 1% per annum; with its cost of borrowing for matching maturity is hovering around 10% per annum. CCM's required capital ratio and required return on capital is 10% and 20% respectively.

a. Based on the above information, Mr. Jacobs has asked you to work out a pricing of the loan using the cost plus profit approach. Calculate the following to determine the minimum spread to be charged on the loan.

i. Capital required for the loan (2 marks)

ii. Annual capital charge (2 marks)

iii. Annual cost of funds (2 marks)

iv. Annual loan loss allowance (2 marks)

v. Break even annual interest income (2 marks)

vi. Loan interest rate (2 marks)

vii. Minimum spread (in basis points) (3 marks)

b. Based on your calculation and understanding, please provide a brief explanation of the following:

i. Capital required for the loan (3 marks)

ii. Annual capital charge (3 marks)

iii. Annual cost of funds (3 marks)

iv. Break even annual interest income (3 marks)

v. Minimum spread (3 marks)

(Total: 30 marks)

End of Paper